PROVINCE OF SASKATCHEWAN

08-09

ANNUAL REPORT

MINISTRY OF AGRICULTURE

Farm Land Security Board

Table of Contents

LETTERS OF TRANSMITTAL 2

PROGRAM RATIONALE, GOVERNING LEGISLATION AND ORGANIZATIONAL STRUCTURE 4

Mission Statement 4

Governing Legislation 4

PROGRAM OBJECTIVES, ACTIVITES AND IMPACTS 5

Part II – Farm Foreclosure Notices 5

Part III – Home Quarter Protection 9

Part VI – Farm Ownership 11

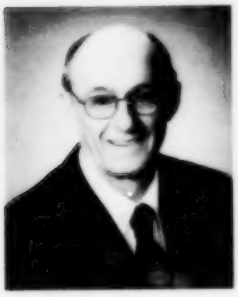
FINANCIAL INFORMATION 15

Expenditures 15

Revenue 16

This annual report is available in electronic from the Farm Land Security Board website: www.farmland.gov.sk.ca

Letters of Transmittal



July 2009

Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May It Please Your Honour:

I have the honour to submit the Annual Report of the Farm Land Security Board for the year ending March 31, 2009.

Respectfully submitted,

Bob Bjornerud
Ministry of Agriculture

Letters of Transmittal

May 13, 2009

The Honourable Bob Bjornerud
Minister of Agriculture

Dear Sir:

I have the honour to submit for your consideration the Annual Report of the Farm Land Security Board for the year ending March 31, 2009.

The *Saskatchewan Farm Security Act* establishes the Farm Land Security Board, providing it a mandate in the areas of farm foreclosures, home quarter protection and farm ownership. During periods of economic instability or challenges related directly to their businesses, the *Act* plays a critical role in the support of farm families.

During the past 12 months, Notices of Intent to Foreclose served upon farmers decreased from the previous year mainly as a result of lingering affects from higher returns in 2008 in the grain sector. Of concern going forward was the dramatic escalation of operating costs in 2008 that have not moved downward with the decrease in grain prices in 2009. Consequently, farm families could experience a heightened level of risk and vulnerability, which if combined with climatic challenges, could materialize in mortgage servicing difficulties. Of further significance is the level of farm debt. As interest rates are at a historic low, any upward change will ultimately be reflected in an increased cost of debt service.

Farm families who derive the greater portion of their income from the livestock sector continue to experience very long and protracted challenges with health issues and the depressed prices related to the higher feed costs, trade barriers like Country of Origin Labeling and the inflated Canadian currency. The Notices served during this past fiscal year began to reflect a shift into this sector.

Activity with respect to Home Quarter Protection continued to reflect debt restructure as the predominating category of applications for Exclusion Orders. Elevated operating and capital expenditures coupled with the depressed livestock markets are anticipated to maintain this level of application activity into the future.

The capital market correction of this past year coupled with strong grain markets have increased land values and created a much more active farm land market. This has contributed to the monitoring aspect of Farm Ownership Protection. The Board continued to expedite applications received from foreign residents relocating to Saskatchewan.

In Farm Ownership Protection, the Board has seen a continual increase in applications for exemptions from the industrial sector, mainly in the mining area where significantly large tracts of farm land are often required.

The attached report illustrates the varied activities of the Board, its administrators and field staff during the past year. We appreciate the opportunity to serve the people of Saskatchewan.

Respectfully submitted,

Dwayne Anderson

Dwayne Anderson
Chair

Organizational Structure

Mission Statement

It is the mission of the Farm Land Security Board to effectively deliver Saskatchewan Farm Security Programs in a manner responsive to the needs of the broad rural community. These programs have been instituted to support family farms during periods of financial difficulty and to stabilize the economic and social environment in rural Saskatchewan.

Governing Legislation

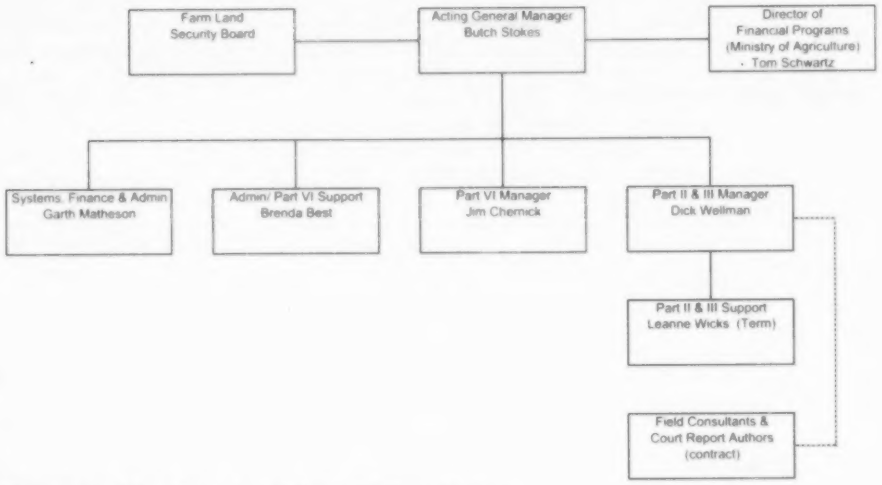
Farm Security programming is governed by *The Saskatchewan Farm Security Act* and its regulations. The Farm Land Security Board is established by the *Act*.

Part II of the *Act*, Farm Foreclosure, allows the Board to oversee the process which occurs prior to a foreclosure action proceeding on farm land. The process is supportive to the farm community by enhancing the opportunity to resolve financial difficulties by means other than foreclosure. The farm family in financial difficulty is provided the benefits of independent financial analysis and mediation. Ultimately, the Board's advice to court may influence the course of an application to commence foreclosure proceedings.

Part III of the *Act*, Home Quarter Protection, allows the Board to exclude a mortgage from Home Quarter Protection when it is "in the best interests" of the farmer. The Board, in doing so, does not take a narrow view of these interests but consults with the borrower on all aspects of the farm business.

Part VI of the *Act*, Farm Ownership, allows the Board to deliver the mandate of preserving Saskatchewan farm land for ownership and operation by Canadian residents and entities while remaining open and sensitive to the broader needs and opportunities of our province. This is accomplished by its daily contact with farmers, agricultural and non-agricultural corporations and non-residents.

Farm Land Security Board Organizational Chart


Farm Land Security Board
Acting General Manager Butch Stokes
Director of Financial Programs (Ministry of Agriculture) - Tom Schwartz
Systems, Finance & Admin Garth Matheson
Admin/ Part VI Support Brenda Best
Part VI Manager Jim Chernick
Part II & III Manager Dick Wellman
Part II & III Support Leanne Wicks (Term)
Field Consultants & Court Report Authors (contract)

Members of the Farm Land Security Board as of March 31, 2009:

Dwayne Anderson, Fosston
Noel Skelton, Harris
Dave Farrell, Yorkton

The Board employs managerial and support staff in Regina as well as contractual field consultants located around the province.

Program Objectives, Activities and Impacts

Part II – Farm Foreclosures

Mandate:

Part II of *The Saskatchewan Farm Security Act* has the stated purpose "to afford protection to farmers against loss of their farm land." Before proceeding to court, the *Act* requires all lenders or writ holders to first serve notice on the farmer and on the Farm Land Security Board respecting their intention to foreclose. The *Act* provides a financial review and mediation mechanism to assist the parties' efforts to find a settlement. If mediation is not successful or the farmer chooses not to participate, the *Act* requires the Board prepare a report for the court expressing the Board's opinion on questions stated in the *Act*, and any other matter the Board feels is relevant. The *Act* directs the court to give the report primary consideration. The statutory period allowed for the above is 150 days. Mediators are provided by the Saskatchewan Ministry of Justice Dispute Resolution Office.

The program helps farmers facing foreclosure by clarifying their financial situation and helping them understand their legal rights and obligations. These activities help establish achievable expectations and objectives for farmers as they enter the mediation process.

The program was also designed to assist the court in its determination of whether allowing foreclosure to proceed would be "just and equitable." The Board's report to the court provides insight into the personal and financial circumstances of the farm family and any other factors that can contribute to achieving the objective of the Act which is to "protect farmers against the loss of their farm land." As well, because some aspects of Home Quarter Protection legislation are linked to the Board's opinion in the report, important legal support for farm families hinges on the report's conclusion.

Resources:

$432,000 was attached to the delivery of Parts II and III under the *Act*, exclusive of general administration overhead and Board meetings. Two full-time equivalent employees and 22 specialized contract field consultants work in these programs.

Objectives:

The primary objective of the program is to help farmers and creditors facing a possible foreclosure understand and resolve the underlying financial problems thereby keeping farmers on the land and in rural communities. An additional resulting benefit is to provide a fair and effective means of resolving farm financial difficulties without involving the court system.

Activities:

Field Analysis and Mediation Preparation

Following receipt of a Notice of Intention to Foreclose, the Board assigns the matter to a field consultant. It is the field consultant's responsibility to meet with the farm family to adequately prepare them for the mediation opportunity. The field consultant also contacts the creditor to discuss its legal rights and obligations and to prepare the creditor for mediation. This preparation includes a review and analysis of the farm family's financial situation. Discussions about their personal and financial situation and their legal rights and obligations occur. Through these discussions the field consultant helps the family establish goals for the mediation process and beyond. A financial report is produced and provided to the farmer, the mediator and the creditor. The consultant will accompany the farmer to the mediation meeting acting as a resource and a support to the family.

When the review and mediation activities do not find a suitable solution, the creditor may ask for the Board's report to the court. Upon receiving such a request, the Board appoints a consultant with specialized training to research the request. Request for the Board's report to the court often occurs several months after the mediation meeting. Therefore, the Board's research will

include updating the farm's financial statement and gathering of other relevant information.

The Board will interview the lender and the farmer when necessary in preparation of the report. The report provides primary advice to the Court in its determination of whether leave is granted to advance into a foreclosure action.

The *Act*, through its provision of a Field Consultant, a process of mediation, and its requirement of a Court Report, has avoided initiation of foreclosure actions in the majority of Notices of Intention to Foreclose. Although repayment arrangements are not always achieved, leaseback and exit arrangements can also benefit some farm families.

Further detail on the success of mediation can be obtained from the Dispute Resolution Services section of the Saskatchewan Ministry of Justice Annual Report.

Notices Of Intent To Foreclose Served On The Farm Land Security Board	
Fiscal Year	Notices
1999 - 2000	403
2000 -2 001	405
2001 - 2002	329
2002 - 2003	300
2003 - 2004	297
2004 - 2005	428
2005 - 2006	350
2006 - 2007	357
2007 - 2008	264
2008 - 2009	178

Notices of Intent to Foreclose are submitted on a mortgage basis and may involve more than one mortgage.

In addition to the 178 Notices of Intent to Foreclose received by the Board in 2008-09, 15 previously resolved Notices were reactivated on the request of lenders.

Notices Of Intent To Foreclose Served On The Farm Land Security Board By Creditors						
Fiscal Year	FCC	ACS	Credit Unions	Others	Chartered Banks	Total
1999 - 2000	174	27	103	41	58	403
2000 - 2001	179	18	94	25	89	405
2001 - 2002	76	31	99	27	96	329
2002 - 2003	120	8	69	22	81	300
2003 - 2004	105	16	89	43	44	297
2004 - 2005	166	23	102	27	110	428
2005 - 2006	139	15	89	29	78	350
2006 - 2007	145	18	87	31	76	357
2007 - 2008	98	13	74	17	62	264
2008 - 2009	66	7	48	34	23	178

Observations:

Since 1985, a total of 13,118 Notices have been served on the Board involving 16,219 mortgages and 10,508 farms.

Notices decreased 33 per cent from the previous fiscal year. Every creditor category reduced the number of notices served. The two organizations with the largest number of notices served, Farm Credit Canada and Credit Unions, reduced their notices by 32 per cent and 35 per cent respectively. Notices served by the five chartered banks reduced 63 per cent. These reductions reflect the improved grain economy over this fiscal year.

The number of farms attached to this notice level is not the full extent of financial difficulties in the farm economy. Participation in federally mandated programs facilitate arrangements involving debt secured to livestock, equipment and crops. These activities add, in some measure, to foreclosure notices. Farms that are dissolved or reduced through voluntary liquidations, or successfully restructured through private arrangements with their lenders are not reflected with formal program numbers.

In this fiscal year 63 applications were received under the Farm Debt Mediation Services program; 335 applications were received under the Canadian Farm Business Assessment Service and Canadian Farm Families Options Program.

Court Reports

The Board's Report to the Court provides primary advice to the court for its decision whether a foreclosure action should be allowed to proceed. In addition to addressing the critical questions of whether the farm family has reasonable possibility of paying the mortgage, and whether sincere and reasonable effort has been made to pay the mortgage, the Board can comment on any issue it deems relevant to the situation. The report is distributed initially to the farmer, the creditor and their legal counsel. Once the creditor advises the Board of its court application, the report is issued to the court.

A Notice of Intention to Foreclose has a three-year lifespan, therefore Board activities may involve a notice served in previous years. 2008-2009 saw 129 notices resolve without the Board issuing a report. The Board wrote the 93 fiscal year reports in 2008-2009, 15 per cent less than the previous year. Fifty seven (57) of these reports followed a mediation meeting. Thirty three (33) reports saw little or no participation by the farmer. This situation arises from a variety of circumstances including the unwillingness of the farmer to engage with the

Part II - Court Reports Requested A					
Fiscal Year	Providing Opinion	Providing No Opinion B	Uncontested Foreclosure C	Resolved D	Total
1999 - 2000	58	29	5	16	108
2000 - 2001	101	42	4	12	159
2001 - 2002	84	30	7	17	138
2002 - 2003	74	33	8	17	133
2003 - 2004	60	34	2	15	111
2004 - 2005	80	41	2	20	143
2005 - 2006	86	52	1	19	158
2006 - 2007	75	61	2	27	165
2007 - 2008	59	50	1	21	131
2008 - 2009	57	33	3	18	111

a. Not all Court Reports initiated by lenders are issued to the Court
b. Court Report issued when Board's assistance is declined by the farmer
c. Reflects mediated arrangements which require a court report for legal purposes
d. Prior to issuing a preliminary Court Report a resolution of the file can take place; the Board cannot accurately track
similar resolutions that take place once a Court Report is issued to the Court.

Part III – Home Quarter Protection

Mandate:

Home Quarter Protection has been a cornerstone of Saskatchewan farm protection legislation since the early 1940s. The protection stays the registration of a Final Order for Foreclosure as long as the farmer continues to live on the homestead. A farmer and a lender may co-apply to the Farm Land Security Board to have a mortgage excluded from this protection. The Board is empowered to exclude the mortgage from protection when, in the opinion of the Board, it would benefit the farmer. The program helps farmers and creditors consider a broader range of financing options as opposed to attaching debt to their home quarter.

Resources:

Part II and III office and human resources are shared. (See Part II for more details)

Objectives:

The mandate of this Part is achieved by clarifying with farmers their security options and examining their ability to service their mortgage obligations. Before the Board will order a mortgage excluded from the protection, it must be convinced the farmer can repay the loan, and that other suitable security is not available. Additionally, it must be convinced that any aspect of a loan which appears uncharacteristic of typical lending practices has been fully discussed with the parties.

Part III - Applications Received	
Fiscal Year	Co-Applications
1999 - 2000	**562**
2000 - 2001	484
2001 - 2002	**469**
2002 - 2003	506
2003 - 2004	**515**
2004 - 2005	581
2005 - 2006	**491**
2006 - 2007	445
2007 - 2008	**452**
2008 - 2009	470

Activities:

Co-applications are reviewed by Board staff. Staff typically contact the farmer and the creditor as part of their review and may request additional information concerning the farm financial situation. Staff will analyze the farm budget and security options to establish that the loan is affordable and that more suitable security arrangements are not possible. In the most difficult situations, the co-application is assigned to a field consultant. The consultant will meet with the farmer and the creditor to prepare a report for the Board.

A decision to refuse to exclude a mortgage from the protection only occurs after clear evidence that either the loan is not serviceable or that alternate satisfactory security options are available.

Rather than deny an application, the Board will work with the parties to find acceptable alternatives. This results in a very low incidence of an application being denied.

Part III Disposition Of Applications To Waive Home Quarter Protection					
Fiscal Year	Order Issue	Special Order Issue	Order Denied	Return/ Withdraw	Total
1999-2000	216	287	2	69	574
2000-2001	131	304	2	37	474
2001-2002	37	392	0	42	471
2002-2003	135	339	2	29	505
2003-2004	376	129	0	15	520
2004-2005	376	160	1	33	570
2005-2006	331	127	2	20	480
2006-2007	276	135	5	40	456
2007-2008	306	140	1	12	459
2008-2009	271	171	4	25	471

Distribution Of Home Quarter Exemption Applications By Purpose Category		
	2008/2009	2007/2008
Construction	9%	14%
Purchase	17%	14%
Restructure	41%	40%
Revolving Credit	20%	13%
Debt Settle-ment	1%	2%
Other	12%	17%

Impacts:

The Board's activities help to maintain the security of farm family homesteads. Its activities ensure that debt obligations are serviceable when a homestead is involved and that alternative options for securing debt are considered. These activities increase farmer knowledge of risk management and contribute to the stability of rural communities in the future.

Many mortgages are issued exclusion orders identifying and attaching explicit conditions. Such conditions may release a home site from the mortgage if the loan fails, or release the home quarter once the principal is reduced to a specified amount.

Observations:

The total number of co-applications to waive Home Quarter Protection in the 2008-09 fiscal year remained essentially the same as the previous year.

The number of co-applications in each of the purpose categories has remained relatively consistent with the exception that of debt restructures. Debt restructures have increased due to farms not being able to service their loan payments, due to new lending initiatives offering lower interest rates and interest only payments on mortgage secured loans.

Little change occurred in the distribution of applications among purpose categories.

There was a noticeable trend emerging in lending practice with the advent of equity-based loan facilities to fund ongoing capital asset purchase and operating costs. These products have been aggressively marketed.

Part VI – Farm Ownership

Mandate:

This legislation is designed to ensure that a non-resident or corporate control of Saskatchewan farm land does not negatively affect the interests of resident producers or the economic and social development of the province

Resources:

A total of $102,000 was expended on the delivery of Part VI activities under the *Act*, exclusive of general administrative overhead and Board meetings. One full-time equivalent employee works in this program.

Objectives:

The Board seeks to preserve ownership and operation of Saskatchewan farm land by residents through ensuring compliance with farm ownership legislation. The Board also maintains an internal objective to remain current in the area of agriculture and land related issues. This contributes positively to its decisions regarding land ownership.

Activities:

Responsibilities of the Board include the granting or denial of applications for exemption or extension, issuing Orders for Divestment and recommending Court action for violation of the *Act's* provisions. Where individuals or corporations acquire or plan to acquire holdings that exceed that allowed by statute, the Board considers the interests of all affected parties in making its determinations. Staff assigned to this aspect of the program monitor all changes of title respecting farm land.

Activity Summary

Staff investigated and processed applications for exemption and applications for extension in order to achieve compliance with the legislation. An application may result in the granting of more than one exemption. In addition, staff responded to personal or written inquiries.

Activity Detail

The Board monitored changes of interest in rural land in the province by analyzing and classifying raw data provided by Information Services Corporation. For the Board's purposes the initial analysis of 2008-09 revealed 32,309 transfers (32,019 in 2007-08) totaling 4,062,446 acres (4,046,214 acres 2007-08 fiscal year). Acres transferred increased two per cent from the previous year.

The following table illustrates the number of transfers in various categories of individuals and corporate entities. The data includes title changes such as registrations of joint ownership, corporate name changes and interim transfers to estates. Therefore, the total transfers do not equate to "new ownership" but reflect "title activity."

2008-09 Transfer Statistics (2007-08)		
Address or category of transferee	Number of transferee	Acreage
Saskatchewan	22,319 (22,125)	2,915,819 (2,817,958)
Canada	2,215 (2,473)	328,547 (306,982)
Foreign	233 (259)	33,587 (37,592)
Lending Institution Including Crown Lenders	19 (22)	3,958 (4,256)
Goverment Inlcuding Non-Crown Corporations	818 (958)	64,548 (71,527)
Coporations	6,705 (6,358)	715,987 (712,895)
Total	32,309 (32,019)	4,062,446 (4,046,214)

The Farm Land Security Board uses transfer information as a basis for its monitoring of dispositions and acquisitions by both individuals and corporations. The Board examines acquisitions by corporations and non-Canadians to ensure holdings are not acquired by those that are ineligible to hold land. Provisions of the *Act* allow certain transfers to foreign resident individuals. These include transfers below 10 acres in size and transfers to individuals who are Canadian citizens, non-Canadian citizens who are eligible for an in-family transfer and for estate transfers.

Application for Exemption:

The Board has the authority to consider applications for exemption which, if approved, allow non-eligible individuals or non-agricultural corporations to have or acquire a land holding in excess of that allowed under the farm ownership provisions of *The Saskatchewan Farm Security Act*. Denials were primarily based on the Board's conclusion that the intended acquisition would be contrary to the longer term interests of Saskatchewan people. The following table summarizes the Board's activity in applications for exemption.
General categories have been developed for the request for exemption the Board receives.

Purchaser Intending to Reside

The Board regularly considers exemption requests by non-residents who plan to move to Canada and are acquiring land in advance of their residency.

Commercial Development

Many commercial undertakings require farm land to develop industrial plants and grain terminals.

Mining Forestry and Petroleum

Several potash mines have applied for acreage necessary to site new mines.

Ag Corporate Investors

Resident-controlled corporations may access non-resident investment. However, the interest in land held by non-residents attributed to a shareholding must receive Board exemption.

Land Investment

The Board denied two applications for exemption from entities with investment to be provided from corporations with publicly traded shares.

Inheritance/Estate Planning

To facilitate estate planning involving transfers of farm land to non-resident beneficiaries' exemption requests are considered. Exemptions granted for this purpose generally correspond with the five-year period allowed for divestment in the *Act*.

Recreational Properties

Often smaller parcels of land of marginal agricultural value command much higher prices than its agricultural value and is acquired for recreational purposes. The Board has developed a Recreational Land Policy to guide such acquisitions by non-Canadians.

Exemption Statistics								
Exemption Category	Granted		Acres		Denied		Acres	
	08-09	07-08	08-09	07-08	08-09	07-08	08-09	07-08
Purchase Intending To Reside	11	10	10,946	12,592	1	0	6,000	0
Border Farm	0	1	0	310	0	0	0	0
Commercial Develop-ments	4	10	2,350	5,316	0	0	0	0
Mining, Forestry And Petroleum	14	0	129,292	0	0	0	0	0
Intensive Livestock	5		1,816	0	0	0	0	0
Ag Corp Investors	2	0	640	0	0	0	0	0
Land Investment	0	0	0	0	2	0	0	0
Family & Non-Family Support	1	1	0	470	0	0	0	0
Inheritance Estate & Planning	3	1	1,390	310	0	2	0	700
Recreational Property	1	0	160	0	0	0	0	0
Spousal Acquisition	0	1	0	310	0	0	0	0
Wildlife & Conservation	0	1	0	160	0	0	0	0
TOTAL	**41**	**25**	**146,594**	**19,468**	**3**	**2**	**6,000**	**700**

Accomplishments

The Land Sales database continues to provide a useful service to the public by allowing searchable access to land sale information. It also facilitates the monitoring of land sales transactions for the purposes of the Act. An online credit card payment system was implemented during the fiscal year.

Observations

Land transfer data also reveals that farm land purchases by individuals who reside outside of Saskatchewan continue to increase. This does not include non-Saskatchewan corporate shareholders or unit holders of limited partnerships.

Farm land purchases by corporations with some or all shareholders being Canadian residents outside of Saskatchewan have been substantial. There are essentially two types of this corporation. Some have purchased farm land and will be carrying on farming operations, but most are acquiring a farm land base as an investment to be leased out.

Limited Partnerships continue to be an investment vehicle that is impacting rural Saskatchewan. The capital being attracted by these entities is largely speculative in nature. These entities can raise capital through private placement, offering memorandum or a prospectus. Issuing a prospectus allows the investment units to be marketed through national investment firms. Very large acreage of farm land can be accumulated by this process. As a result, land speculation is now a significant driver of land values in Saskatchewan.

The number and capitalization of speculative ventures acquiring Saskatchewan farm land is increasing.

2008-09 Financial Results – Expenditures

Expenditures:

A budget of $851,000 was provided to the Farm Land Security Board in the 2008-09 fiscal year. Expenditures and accounts payable for the year were $933,600. The Board supervised a workforce of six full-time equivalent employees and 22 contract field consultants.

Expenditures (thousand dollars)	2008-09		2007-08		2006-07	
Admin/Board						
Salaries	325.1*		143.4		185.0	
Other Expenses	28.5		33.1		49.8	
		353.6		176.5		234.8
Part II/III						
Salaries	107.5		106.8		103.9	
Other Expenses	209.0		221.6		344.4	
Accounts Payable	14.4		3.3		16.0	
		330.9		331.7		448.3
Part VI						
Salaries	86.8		70.3		94.5	
Other Expenses	.1		.3		2.8	
		86.9		70.6		97.3
Systems						
Salaries	65.1		65.8		59.8	
Other Expenses	97.1		98.2		82.7	
		162.2		160.0		142.5
Totals						
Salaries	584.5		386.3		443.2	
Other Expenses	334.7		353.2		463.7	
Accounts Payable	14.4		3.3		16.0	
		933.6		742.8		922.9

* 159.8 severance charged to Admin/Board salaries.

Revenue

During 2008-09 a Notice Application Fee, Land Sales Data Fee and Farm Ownership Fee generated $111,000 in revenue and accounts receivable.

Revenues (thousand dollars)	2008-09	2007-08	2006-07	2005-06
Notice Application Fee	41.4	58.8	79.2	77.5
Land Sales Data Fee	66.1	43.0	36.7	35.6
Farm Ownership Fee	3.3	2.6	1.6	4.6
Total	**110.8**	**104.4**	**117.5**	**117.7**